

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Saugatuck	County Allegan
Fiscal Year End June 30, 2007	Opinion Date October 17, 2007	Date Audit Report Submitted to State October 24, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 616.975.4100		
Street Address 2330 East Paris SE		City Grand Rapids	State MI	Zip 49546
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM		License Number 24801

CITY OF SAUGATUCK

SAUGATUCK, MICHIGAN

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007



REHMANN ROBSON

Certified Public Accountants

CITY OF SAUGATUCK

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

October 17, 2007

Honorable Mayor and Members of
the City Council
City of Saugatuck, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Saugatuck, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Saugatuck, Michigan. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the City of Saugatuck, Michigan as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund, and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-8 is not part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Saugatuck's basic financial statements. The combining financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the City of Saugatuck's basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the City of Saugatuck, we offer readers of the City of Saugatuck's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The City acquired several pieces of equipment for the Public Works department. The equipment was purchased and is held by the City's Motor Pool Fund.
- The City continued to reduce its long-term liabilities by making principal and interest payments on the two bonds and notes outstanding at year end.
- The City was able to add \$19,620 to its General Fund fund balance during the year ended June 30, 2007. This is especially important due to the uncertainty of funding from the State .

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Saugatuck's financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City of Saugatuck that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the City include general government administration, public works including street maintenance, public safety and recreation and cultural activities.

The government-wide financial statements can be found on pages 9-11 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the following six funds: general, major streets, local streets, business licenses, water and sewer improvement, and parks.

Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in the report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 12-25 of this report.

Proprietary funds. The City maintains one type of proprietary fund. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses the internal service fund to account for its fleet of vehicles. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

The internal service fund financial statements can be found on pages 26-28 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resource of those funds are *not* available to the support the City's own programs.

The tax collection and payroll fund statements can be found on page 29 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30-43 of this report.

Combining and individual fund statements and schedules can be found on pages 44 and 45 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$8,605,221 at the close of the most recent fiscal year.

A significant portion of the City's net assets reflects unrestricted net assets which are available for future operation while another portion of net assets is invested in capital assets (e.g., land, buildings, vehicles and equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Saugatuck's Net Assets

	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 2,474,199	\$ 2,086,269
Capital assets, net	<u>7,090,106</u>	<u>7,293,334</u>
Total assets	<u>9,564,305</u>	<u>9,379,603</u>
Long-term liabilities outstanding	794,008	925,048
Other liabilities	<u>165,076</u>	<u>152,224</u>
Total liabilities	<u>959,084</u>	<u>1,077,272</u>
Net assets:		
Invested in capital assets, net of related debt	6,307,558	6,380,811
Restricted	1,461,605	740,387
Unrestricted	<u>836,058</u>	<u>1,181,133</u>
Total net assets	<u>\$ 8,605,221</u>	<u>\$ 8,302,331</u>

Net assets of the City increased by \$302,890 primarily due to a large increase in net assets from the local streets activities.

City of Saugatuck's Changes in Net Assets

	<u>2007</u>	<u>2006</u>
Revenue		
Program revenue:		
Charges for services	\$ 333,974	\$ 560,851
Operating grants and contributions	354,629	127,355
Capital grants	<u>-</u>	<u>178,500</u>
Total program revenue	<u>688,603</u>	<u>866,706</u>
General revenue:		
Property taxes	1,653,251	1,578,687
State shared revenues	98,996	102,432
Interest earnings	<u>128,458</u>	<u>102,665</u>
Total general revenue	<u>1,880,705</u>	<u>1,783,784</u>
Total revenue	<u>2,569,308</u>	<u>2,650,490</u>
Expenses		
Legislative	14,085	13,008
General government	742,241	538,613
Public safety	480,003	544,844
Public works	597,312	537,247
Health and welfare	38,508	94,721
Recreation and cultural	354,286	417,245
Interest on long-term debt	<u>39,983</u>	<u>39,152</u>
Total expenses	<u>2,266,418</u>	<u>2,184,830</u>
Increase in net assets	302,890	465,660
Net assets – beginning of year	<u>8,302,331</u>	<u>7,836,671</u>
Net assets – end of year	<u>\$ 8,605,221</u>	<u>\$ 8,302,331</u>

Governmental activities

During the year the City invested \$480,003 or 21% of governmental activities expenses in public safety. General government, which includes general City operations, was \$742,241 or 33% of governmental activities expenses while legislative, public works, health and welfare, recreation and culture, and interest on long-term debt made up the remaining 46% of governmental activities expenses.

Revenues increased mainly due to the increase in taxable value of property, which led to an increase in property taxes.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,214,313, an increase of \$418,567 in comparison with the prior year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was \$736,494.

The fund balance of the City's general fund increased by \$19,620 during the current fiscal year.

General Fund Budgetary Highlights

- Property tax revenues and interest income were higher than budget due to increased property values and interest income generated by fund investment strategies.
- Variation between original and amended budget as well as amended budget and final expenditures were relatively insignificant for all other line items.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental activities as of June 30, 2007, amounted to \$7,090,106 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings and improvements, machinery and equipment, streets, and infrastructure. Significant capital purchases during the year consisted primarily of machinery and equipment.

City of Saugatuck's Capital Assets (net of depreciation)

	<u>2007</u>	<u>2006</u>
Land	\$ 3,160,697	\$ 3,160,697
Land improvements	479,090	519,906
Buildings and improvements	591,629	612,749
Machinery and equipment	133,208	172,936
Streets	720,183	762,796
Infrastructure	<u>2,005,299</u>	<u>2,064,250</u>
Total	<u>\$ 7,090,106</u>	<u>\$ 7,293,334</u>

Additional information on the City capital assets can be found in Note 7 on page 38 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$794,008 as follows:

City of Saugatuck's Long-term Debt

	<u>2007</u>	<u>2006</u>
Bonds	\$ 556,842	\$ 643,347
Notes	225,706	269,176
Compensated absences	<u>11,460</u>	<u>12,525</u>
Total	<u>\$ 794,008</u>	<u>\$ 925,048</u>

The City's total debt decreased by \$131,040 during the current fiscal year.

Additional information on the City's long-term debt can be found in Note 8 on page 39 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2007-08 fiscal year:

- Increased property tax revenue due to increased taxable values.
- Flat state revenue sharing payments due to state budget issues.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Treasurer, 102 Butler St., P.O. Box 86, Saugatuck, Michigan, 49453.

BASIC FINANCIAL STATEMENTS

CITY OF SAUGATUCK

Statement of Net Assets

June 30, 2007

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 2,399,213
Receivables	74,986
Capital assets not being depreciated	3,160,697
Capital assets being depreciated, net	<u>3,929,409</u>
Total assets	<u>9,564,305</u>
Liabilities	
Accounts payable and accrued liabilities	122,020
Unearned revenue	43,056
Noncurrent liabilities:	
Due within one year	133,312
Due in more than one year	<u>660,696</u>
Total liabilities	<u>959,084</u>
Net assets	
Invested in capital assets, net of related debt	6,307,558
Restricted for:	
Public works	393,211
Debt service	83,675
Recreation and culture	242,687
Highways and streets	742,032
Unrestricted	<u>836,058</u>
Total net assets	<u><u>\$ 8,605,221</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF SAUGATUCK

Statement of Activities

For the Year Ended June 30, 2007

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Primary government				
Governmental activities:				
Legislative	\$ 14,085	\$ -	\$ -	\$ (14,085)
General government	742,241	71,182	144,559	(526,500)
Public safety	480,003	2,845	-	(477,158)
Public works	597,312	36,389	191,302	(369,621)
Health and welfare	38,508	-	-	(38,508)
Recreation and culture	354,286	223,558	18,768	(111,960)
Interest on long-term debt	39,983	-	-	(39,983)
Total governmental activities	<u>\$ 2,266,418</u>	<u>\$ 333,974</u>	<u>\$ 354,629</u>	<u>\$ (1,577,815)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF SAUGATUCK

Statement of Activities (Concluded)

For the Year Ended June 30, 2007

	<u>Governmental Activities</u>
Changes in net assets	
Net (expense) revenue	<u>\$ (1,577,815)</u>
General revenues:	
Property taxes	1,653,251
State shared revenues	98,996
Investment income	<u>128,458</u>
Total general revenues	<u>1,880,705</u>
Change in net assets	302,890
Net assets, beginning of year	<u>8,302,331</u>
Net assets, end of year	<u><u>\$ 8,605,221</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF SAUGATUCK

Balance Sheet Governmental Funds

June 30, 2007

	General Fund	Major Streets	Local Streets
Assets			
Cash and cash equivalents	\$ 839,150	\$ 279,454	\$ 461,983
Accounts receivable	36,174	9,606	20,841
Total assets	<u>\$ 875,324</u>	<u>\$ 289,060</u>	<u>\$ 482,824</u>
Liabilities and fund balances			
Liabilities			
Accounts payable	\$ 92,214	\$ 1,558	\$ 12,764
Deferred revenue	19,865	-	15,530
Total liabilities	<u>112,079</u>	<u>1,558</u>	<u>28,294</u>
Fund balances			
Unreserved:			
Designated for capital improvements	26,751	-	-
Undesignated reported in nonmajor special revenue funds	-	-	-
Undesignated reported in nonmajor debt service funds	-	-	-
Undesignated	736,494	287,502	454,530
Total fund balances	<u>763,245</u>	<u>287,502</u>	<u>454,530</u>
Total liabilities and fund balances	<u><u>\$ 875,324</u></u>	<u><u>\$ 289,060</u></u>	<u><u>\$ 482,824</u></u>

The accompanying notes are an integral part of these financial statements.

Business Licenses	Water & Sewer Improvement	Parks	Nonmajor Funds	Total Governmental Funds
\$ 38,240	\$ 365,511	\$ 242,687	\$ 95,541	\$ 2,322,566
-	8,170	-	195	74,986
\$ 38,240	\$ 373,681	\$ 242,687	\$ 95,736	\$ 2,397,552
\$ 3,060	\$ -	\$ -	\$ 2,887	\$ 112,483
27,191	8,170	-	-	70,756
30,251	8,170	-	2,887	183,239
-	-	-	-	26,751
-	-	-	658	658
-	-	-	92,191	92,191
7,989	365,511	242,687	-	2,094,713
7,989	365,511	242,687	92,849	2,214,313
\$ 38,240	\$ 373,681	\$ 242,687	\$ 95,736	\$ 2,397,552

CITY OF SAUGATUCK

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets

June 30, 2007

Fund balances - total governmental funds	\$ 2,214,313
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore are not reported in the fund statements.

Add - capital assets not being depreciated	3,160,697
Add - capital assets, net of accumulated depreciation	3,817,856

Certain assets, such as special assessments receivable, are not due and receivable in the current period and therefore are offset with deferred revenue in the fund statements.

Add - deferred special assessments receivable	27,700
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An internal service fund is used by management to charge the costs of certain activities, such as equipment usage and other centralized costs, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities.

Add - net assets of governmental activities accounted for in the internal service fund	187,179
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Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the fund statements:

Deduct - bonds payable	(782,548)
Deduct - compensated absences	(11,460)
Deduct - accrued interest on long-term liabilities	(8,516)

Net assets of governmental activities	<u><u>\$ 8,605,221</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF SAUGATUCK

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

For the Year Ended June 30, 2007

	General Fund	Major Streets	Local Streets
Revenues			
Taxes	\$ 1,379,594	\$ -	\$ 201,223
Special assessments	-	-	4,783
Licenses and permits	19,065	-	-
Intergovernmental revenue	121,935	106,645	80,486
Charges for services	214,603	-	-
Fines and forfeitures	21,443	-	-
Interest and rentals	106,285	11,227	15,164
Other revenue	135,449	-	-
Total revenues	1,998,374	117,872	301,656
Expenditures			
Current:			
Legislative	12,785	-	-
General government	640,291	-	-
Public safety	531,040	-	-
Public works	256,301	58,873	105,611
Health and welfare	38,508	-	-
Recreation and culture	297,456	-	-
Debt service:			
Principal	4,470	-	-
Interest	465	-	-
Capital outlay	16,788	-	-
Total expenditures	1,798,104	58,873	105,611
Revenues over (under) expenditures	200,270	58,999	196,045
Other financing sources (uses)			
Transfers in	9,350	-	163,000
Transfers out	(190,000)	(6,000)	(42,450)
Total other financing sources (uses)	(180,650)	(6,000)	120,550
Net changes in fund balances	19,620	52,999	316,595
Fund balances, beginning of year, as restated	743,625	234,503	137,935
Fund balances, end of year	\$ 763,245	\$ 287,502	\$ 454,530

The accompanying notes are an integral part of these financial statements.

Business Licenses	Water and Sewer Improvement	Parks	Nonmajor Funds	Total Governmental Funds
\$ -	\$ 44	\$ -	\$ 72,390	\$ 1,653,251
-	3,925	-	-	8,708
28,391	-	-	-	47,456
-	-	-	-	309,066
-	15,000	-	319	229,922
-	-	-	-	21,443
2,428	15,221	10,636	5,216	166,177
-	-	-	-	135,449
30,819	34,190	10,636	77,925	2,571,472
-	-	-	-	12,785
-	-	-	-	640,291
-	-	-	-	531,040
17,477	-	-	400	438,662
-	-	-	-	38,508
-	-	5,933	-	303,389
-	-	-	125,505	129,975
-	-	-	41,002	41,467
-	-	-	-	16,788
17,477	-	5,933	166,907	2,152,905
13,342	34,190	4,703	(88,982)	418,567
-	-	7,500	88,600	268,450
(30,000)	-	-	-	(268,450)
(30,000)	-	7,500	88,600	-
(16,658)	34,190	12,203	(382)	418,567
24,647	331,321	230,484	93,231	1,795,746
\$ 7,989	\$ 365,511	\$ 242,687	\$ 92,849	\$ 2,214,313

CITY OF SAUGATUCK

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2007

Net changes in fund balances - total governmental funds	\$ 418,567
---	------------

Amounts reported for *governmental activities* in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds, but are allocated over their useful lives as depreciation expense in the statement of activities.

Add - capital outlay	6,564
Deduct - depreciation expense	(207,327)

Special assessments receivable are long-term in nature and are collectable over several years. However, the current receipts are reflected as revenues on the fund statements.

Deduct - decrease in deferred long-term receivables	(7,426)
---	---------

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term liabilities	129,975
---	---------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Add - decrease in accrued interest on bonds	1,484
Add - decrease in the accrual for compensated absences	1,065

An internal service fund is used by management to charge the costs of certain services to individual governmental funds. The net revenue (expense) attributable to that fund is reported with governmental activities.

Add - (loss) from governmental activities in the internal service fund	<u>(40,012)</u>
--	-----------------

Change in net assets of governmental activities	<u><u>\$ 302,890</u></u>
---	--------------------------

The accompanying notes are an integral part of these financial statements.

CITY OF SAUGATUCK

Statement of Revenues, Expenditures and Change in Fund Balance Budget and Actual General Fund

For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Actual Over (Under) Budget
Revenues				
Taxes	\$ 1,317,500	\$ 1,373,500	\$ 1,379,594	\$ 6,094
Licenses and permits:				
Building permits	2,500	2,500	2,845	345
Cable TV franchise fees	9,500	9,500	13,220	3,720
Other	3,000	3,000	3,000	-
Total licenses and permits	15,000	15,000	19,065	4,065
Intergovernmental revenues:				
State shared revenues	97,189	97,189	91,847	(5,342)
Other state grants	45,000	45,000	18,768	(26,232)
Liquor license fees	6,700	6,700	7,149	449
Right of way fees	-	-	4,171	4,171
Total intergovernmental revenues	148,889	148,889	121,935	(26,954)
Charges for services:				
Tax collection fees	56,160	3,160	3,930	770
Planning fees	6,000	6,000	4,600	(1,400)
Chain ferry fees	24,000	24,000	23,276	(724)
Oval Beach fees	155,000	155,000	173,919	18,919
Recreation fees	10,400	10,400	8,878	(1,522)
Total charges for services	251,560	198,560	214,603	16,043
Fines and forfeitures:				
Parking tickets	13,100	13,100	14,932	1,832
Ordinance fines	6,000	6,000	6,511	511
Total fines and forfeitures	19,100	19,100	21,443	2,343

(Continued)

CITY OF SAUGATUCK

Statement of Revenues, Expenditures and Change in Fund Balance Budget and Actual (Continued) General Fund

For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Actual Over (Under) Budget
Revenues (Continued)				
Interest and rentals:				
Interest	\$ 25,000	\$ 22,000	\$ 63,304	\$ 41,304
Rental fees	23,321	23,321	42,981	19,660
Total interest and rentals	48,321	45,321	106,285	60,964
Other revenues:				
Assessments	-	-	4,110	4,110
Contributions	10,000	10,000	22,083	12,083
Miscellaneous	-	-	109,256	109,256
Total other revenues	10,000	10,000	135,449	125,449
Total revenues	1,810,370	1,810,370	1,998,374	188,004
Expenditures				
Current:				
Legislative	12,550	12,550	12,785	235
General government				
City manager	158,900	139,676	95,312	(44,364)
Elections	8,350	8,350	6,159	(2,191)
Assessor	35,295	35,295	35,781	486
Clerk	83,925	85,425	77,179	(8,246)
Treasurer	71,725	92,000	88,329	(3,671)
Buildings and grounds	97,250	97,250	75,656	(21,594)
Other general government	140,450	204,050	261,875	57,825
Total general government	595,895	662,046	640,291	(21,755)
Public safety				
Police contract	582,000	582,000	480,003	(101,997)
Building inspections	62,110	63,710	51,037	(12,673)
Total public safety	644,110	645,710	531,040	(114,670)
Public works	155,550	198,540	256,301	57,761

(Continued)

CITY OF SAUGATUCK

Statement of Revenues, Expenditures and Change in Fund Balance Budget and Actual (Concluded) General Fund

For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Actual Over (Under) Budget
Expenditures (Continued)				
Health and welfare	\$ 43,000	\$ 43,000	\$ 38,508	\$ (4,492)
Recreation and culture:				
Parks	188,200	188,200	155,813	(32,387)
Oval Beach	103,240	106,840	110,619	3,779
Chain ferry	38,700	39,400	31,024	(8,376)
Total recreation and culture	330,140	334,440	297,456	(36,984)
Debt service:				
Principal	4,936	4,936	4,470	(466)
Interest	-	-	465	465
Total debt service	4,936	4,936	4,935	(1)
Capital outlay	104,500	107,099	16,788	(90,311)
Total expenditures	1,890,681	2,008,321	1,798,104	(210,217)
Revenues over (under) expenditures	(80,311)	(197,951)	200,270	398,221
Other financing sources (uses)				
Transfers in	9,350	9,350	9,350	-
Transfers (out)	(27,000)	(190,000)	(190,000)	-
Total other financing sources (uses)	(17,650)	(180,650)	(180,650)	-
Net change in fund balance	(97,961)	(378,601)	19,620	398,221
Fund balance, beginning of year, as restated	743,625	743,625	743,625	-
Fund balance, end of year	<u>\$ 645,664</u>	<u>\$ 365,024</u>	<u>\$ 763,245</u>	<u>\$ 398,221</u>

(Concluded)

The accompanying notes are an integral part of these financial statements.

CITY OF SAUGATUCK

Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Major Streets Fund

For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Intergovernmental revenue	\$ 116,500	\$ 109,500	\$ 106,645	\$ (2,855)
Interest	-	7,000	11,227	4,227
Total revenues	116,500	116,500	117,872	1,372
Expenditures				
Public works	96,450	107,825	58,873	(48,952)
Revenues over expenditures	20,050	8,675	58,999	50,324
Other financing uses				
Transfers (out)	(6,000)	(6,000)	(6,000)	-
Net change in fund balance	14,050	2,675	52,999	50,324
Fund balance, beginning of year	234,503	234,503	234,503	-
Fund balance, end of year	\$ 248,553	\$ 237,178	\$ 287,502	\$ 50,324

The accompanying notes are an integral part of these financial statements.

CITY OF SAUGATUCK

Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Local Streets Fund

For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Taxes	\$ 194,000	\$ 194,500	\$ 201,223	\$ 6,723
Special assessments	-	-	4,783	4,783
Intergovernmental revenue	83,500	83,500	80,486	(3,014)
Interest	8,000	7,500	15,164	7,664
Total revenues	285,500	285,500	301,656	16,156
Expenditures				
Public works	135,450	440,543	105,611	(334,932)
Revenues over (under) expenditures	150,050	(155,043)	196,045	351,088
Other financing sources (uses)				
Transfers in	-	163,000	163,000	-
Transfers (out)	(42,450)	(42,450)	(42,450)	-
Total other financing sources (uses)	(42,450)	120,550	120,550	-
Net change in fund balance	107,600	(34,493)	316,595	351,088
Fund balance, beginning of year, as restated	137,935	137,935	137,935	-
Fund balance, end of year	\$ 245,535	\$ 103,442	\$ 454,530	\$ 351,088

The accompanying notes are an integral part of these financial statements.

CITY OF SAUGATUCK

Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Business Licenses Fund

For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Licenses and permits	\$ 32,000	\$ 32,000	\$ 28,391	\$ (3,609)
Interest	2,000	2,000	2,428	428
Total revenues	34,000	34,000	30,819	(3,181)
Expenditures				
Public works	17,300	17,300	17,477	177
Revenues over (under) expenditures	16,700	16,700	13,342	(3,358)
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers (out)	(30,000)	(30,000)	(30,000)	-
Total other financing sources (uses)	(30,000)	(30,000)	(30,000)	-
Net change in fund balance	(13,300)	(13,300)	(16,658)	(3,358)
Fund balance, beginning of year	24,647	24,647	24,647	-
Fund balance, end of year	\$ 11,347	\$ 11,347	\$ 7,989	\$ (3,358)

The accompanying notes are an integral part of these financial statements.

CITY OF SAUGATUCK

Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Water & Sewer Improvement Fund

For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property taxes	\$ -	\$ 100	\$ 44	\$ (56)
Special assessments	-	-	3,925	3,925
Charges for services	15,000	15,000	15,000	-
Interest	12,500	12,400	15,221	2,821
Total revenues	27,500	27,500	34,190	6,690
Expenditures				
Public works	-	-	-	-
Net change in fund balance	27,500	27,500	34,190	6,690
Fund balance, beginning of year	331,321	331,321	331,321	-
Fund balance, end of year	\$ 358,821	\$ 358,821	\$ 365,511	\$ 6,690

The accompanying notes are an integral part of these financial statements.

CITY OF SAUGATUCK

Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Parks Fund

For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Interest	\$ 9,200	\$ 9,200	\$ 10,636	\$ 1,436
Expenditures				
Recreation and culture	10,200	10,200	5,933	(4,267)
Revenues over (under) expenditures	(1,000)	(1,000)	4,703	5,703
Other financing sources (uses)				
Transfers in	7,500	7,500	7,500	-
Net change in fund balance	6,500	6,500	12,203	5,703
Fund balance, beginning of year	230,484	230,484	230,484	-
Fund balance, end of year	<u>\$ 236,984</u>	<u>\$ 236,984</u>	<u>\$ 242,687</u>	<u>\$ 5,703</u>

The accompanying notes are an integral part of these financial statements.

CITY OF SAUGATUCK

Statement of Net Assets

Internal Service Fund

June 30, 2007

	Motor Pool Fund
	<hr/>
Assets	
Cash and cash equivalents	\$ 76,647
Capital assets being depreciated, net	<hr/> 111,553
Total assets	<hr/> 188,200
Liabilities	
Accounts payable	<hr/> 1,021
Net Assets	
Invested in capital assets	111,553
Unrestricted	<hr/> 75,626
Total net assets	<hr/> <hr/> \$ 187,179

The accompanying notes are an integral part of these financial statements.

CITY OF SAUGATUCK
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Internal Service Fund
For the Year Ended June 30, 2007

	Motor Pool Fund
	<hr/>
Operating revenues	
Charges for services	\$ 65,000
	<hr/>
Operating expenses	
Personnel services	931
Repairs and maintenance	52,248
Depreciation	57,095
	<hr/>
Total expenses	110,274
	<hr/>
Operating loss	(45,274)
Nonoperating revenues (expenses)	
Interest income	5,262
	<hr/>
Change in net assets	(40,012)
Net assets, beginning of year, as restated	227,191
	<hr/>
Net assets, end of year	\$ 187,179
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

CITY OF SAUGATUCK
Statement of Cash Flows
Internal Service Fund
For the Year Ended June 30, 2007

	Motor Pool Fund
	<hr/>
Cash flows from operating activities	
Receipts from interfund services provided	\$ 65,000
Payments to suppliers	(51,227)
Payments to employees	(931)
	<hr/>
Net cash provided by operating activities	12,842
 Cash flows from capital and related financing activities	
Acquisition of capital assets	(54,630)
	<hr/>
Cash flows from investing activities	
Interest earned on investments	5,262
	<hr/>
Net increase (decrease) in cash and cash equivalents	(36,526)
 Cash and cash equivalents, beginning of year	113,173
	<hr/>
Cash and cash equivalents, end of year	<u><u>\$ 76,647</u></u>
 Cash flows from operating activities	
Operating loss	\$ (45,274)
 Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	57,095
Changes in operating assets and liabilities which provided (used) cash:	
Accounts payable	1,021
	<hr/>
Net cash provided by operating activities	<u><u>\$ 12,842</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF SAUGATUCK

Statement of Fiduciary Assets and Liabilities Agency Funds

June 30, 2007

	<u>Tax Collection Fund</u>	<u>Payroll Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ -	\$ 23,339	\$ 23,339
Due from other governmental units	34,872	-	34,872
Total assets	<u>\$ 34,872</u>	<u>\$ 23,339</u>	<u>\$ 58,211</u>
Liabilities			
Accounts payable	\$ -	\$ 23,339	\$ 23,339
Negative equity held in pooled cash	34,872	-	34,872
Total liabilities	<u>\$ 34,872</u>	<u>\$ 23,339</u>	<u>\$ 58,211</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF SAUGATUCK

Notes to Financial Statements

For the Year Ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Saugatuck, (the “City”) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the most significant policies:

The Reporting Entity

As required by generally accepted accounting principles, these financial statements present the City, which is incorporated under the Home Rule City Act (P.A. 279 of 1979) and is governed by a seven-member Council. The accompanying financial statements present the government entity for which the government is considered to be financially accountable.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The City has no business-type activities for the year ended June 30, 2007.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, internal service funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the internal service fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. After March 1 of each year, the County pays the City, and is responsible for collecting, any outstanding real property taxes as of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF SAUGATUCK

Notes to Financial Statements

For the Year Ended June 30, 2007

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all the financial resources of the general government, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The *Major Streets Fund* accounts for City and County tax levies and for state gas and weight tax revenues that are restricted for expenditures related to maintaining and improving the City's major streets.

The *Local Streets Fund* accounts for City tax levy, and state gas and weight tax that are restricted for expenditures related to maintaining and improving the City's local streets.

The *Business License Fund* accounts for local business license revenues that are used for expenditures related to services to local businesses.

The *Sewer and Water Improvement Fund* accounts for the financial resources used for the expansion, repairs, and maintenance of sewer and water lines in the City. Revenues are primarily derived from connection fees and assessments.

The *Parks Fund* accounts for financial resources for the purposes of maintaining a city park.

Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for proceeds from specific revenue sources (other than perpetual trusts or capital projects) and related expenditures which are restricted for specific purposes by administrative action or law.

The *Debt Service Funds* account for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

The *Agency Funds* account for the collection and disbursements of delinquent taxes and deposits due to other units and individuals.

CITY OF SAUGATUCK

Notes to Financial Statements

For the Year Ended June 30, 2007

Amounts reported as program revenue include: (1) charges to customers of applicants for goods services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated to resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operating. The principal operating revenues of the enterprise funds are charges for services. Operation expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Budgets and Budgetary Accounting

Comparisons to budget are presented for General and Special Revenue Funds. General and Special Revenue Funds adopt a legal budget with remaining funds maintaining budgets as a management control device. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed for the government fund types as a management control device.
5. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Annual budgets lapse at fiscal year end.
6. Adoption and amendments of all budgets used by the City are governed by Public Act 621, which was followed for the year ended June 30, 2007. Expenditures may not exceed appropriations. The appropriations resolutions are based on the projected expenditures budget of the department heads of the City. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the City Council.
7. Budgeted amounts are as originally adopted, or as amended by the City Council.

CITY OF SAUGATUCK

Notes to Financial Statements

For the Year Ended June 30, 2007

Budgets and Budgetary Accounting

Budgets for expenditures are adopted on an activity level basis in the General Fund and by function in the Special Revenue funds. Thus, expenditures may not legally exceed the budgeted amounts by activity for the General Fund and Special Revenue funds.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the City considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Receivables

All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Special assessments receivable include \$20,711 which are expected to be collected in greater than one year.

Deferred Revenue

The City reports deferred revenue when cash receipts do not meet both the “measurable” and “available” criteria for recognition in the current period.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The amount reported for infrastructure includes water and sewer improvements made since 1984, and all other types of infrastructure constructed or acquired since 2003.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Depreciation on capital assets (including infrastructure), is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	15-50
Furniture, fixtures, and equipment	5-30
Streets	20
Water and sewer improvements	50

CITY OF SAUGATUCK

Notes to Financial Statements

For the Year Ended June 30, 2007

Long-Term Obligations

In the government-wide financial statements the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, statement of net assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation pay benefits. A liability for unpaid accumulated vacation has been recorded for the portion due to employees upon separation for service with the City. Vested compensated absences are accrued when earned in the government-wide financial statements. A liability for these amounts is reported in government funds only for employee terminations as of the end of the year.

Property Taxes

City property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before August 31. These summer tax bills include the City's own property taxes and taxes billed on behalf of the school district (State Education Tax) within the City limits. Real property taxes not collected as of March 1 are returned to the County for collection, which advances the City 100% for the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

Property taxes levied in July of each year are recognized as revenue in that year.

Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services and to service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers.

Fund Equity

In the fund financial statements, governmental funds report reservation of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose.

CITY OF SAUGATUCK

Notes to Financial Statements

For the Year Ended June 30, 2007

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2007, the City carried commercial insurance to cover all risks of losses. The City had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years. There was no significant change in coverage during the year.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

During the year ended June 30, 2007 the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund:			
Legislative	\$ 12,550	\$ 12,785	\$ 235
Assessor	35,295	35,781	486
Other general government	204,050	261,875	57,825
Public works	198,540	256,301	57,761
Oval Beach	106,840	110,619	3,779
Business Licenses Fund:			
Public works	17,300	17,477	177

3. CASH AND INVESTMENTS

Cash and investments consist of the following at June 30, 2007:

Statement of Net Assets

Cash and cash equivalents	\$ 2,399,213
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Statement of Fiduciary Assets and Liabilities

Cash and cash equivalents	23,339
Negative equity held in pooled cash	<u>(34,872)</u>

\$ 2,387,680

Deposits and Investments

Cash on hand	\$ 5,575
Bank deposits	1,479,467
Certificates of deposit (due within one year)	817,540
Cash held with others	<u>85,098</u>

\$ 2,387,680

Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require, and the City does not have, a policy for deposit custodial credit risk. As of year end, \$1,534,884 of the City's bank balance of \$2,334,884 was exposed to custodial credit risk because it was uninsured and uncollateralized.

CITY OF SAUGATUCK

Notes to Financial Statements

For the Year Ended June 30, 2007

These deposits are in four (4) financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. They are recorded in the City's records at cost. Interest is recorded when earned.

Statutory Authority

Act 217, PA 1982, authorizes the City to deposit and invest in:

- a. Bonds and other direct obligations of the United States or its agencies.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

4. RECEIVABLES

At June 30, 2007, the City's receivables were as follows:

Fund	Property Taxes	Special Assessments	Inter- governmental	Totals
General	\$ 1,659	\$ 4,000	\$ 30,515	\$ 36,174
Major Streets	-	-	9,606	9,606
Local Streets	-	15,530	5,311	20,841
Water and Sewer Improvements	-	8,170	-	8,170
Nonmajor Debt Service	195	-	-	195
Total governmental activities	<u>\$ 1,854</u>	<u>\$ 27,700</u>	<u>\$ 45,432</u>	<u>\$ 74,986</u>
Non current portion	<u>\$ -</u>	<u>\$ 20,711</u>	<u>\$ -</u>	<u>\$ 20,711</u>

All receivables are considered fully collectable.

CITY OF SAUGATUCK

Notes to Financial Statements

For the Year Ended June 30, 2007

5. PAYABLES

At June 30, 2007, the City's payables were as follows:

<u>Fund</u>	<u>Accounts</u>	<u>Payroll</u>	<u>Totals</u>
General Fund	\$ 77,712	\$ 14,502	\$ 92,214
Major Streets	1,348	210	1,558
Local Streets	12,443	321	12,764
Business Licenses	3,060	-	3,060
Nonmajor Funds	2,887	-	2,887
Internal Service	949	72	1,021
Total	<u>\$ 98,399</u>	<u>\$ 15,105</u>	113,504
Accrued interest on long-term debt			<u>8,516</u>
Total			<u>\$ 122,020</u>

6. DEFERRED REVENUE

Governmental funds report deferred revenues in connection with revenues that are not yet considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred revenues are as follows.

	<u>Unavailable</u>	<u>Unearned</u>
General Fund	\$ 4,000	\$ 15,865
Local Streets	15,530	-
Business Licenses	-	27,191
Water and Sewer Improvement	8,170	-
Total	<u>\$ 27,700</u>	<u>\$ 43,056</u>

CITY OF SAUGATUCK

Notes to Financial Statements

For the Year Ended June 30, 2007

7. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Dispositions	Balance June 30, 2007
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 3,160,697	\$ -	\$ -	\$ 3,160,697
Capital assets, being depreciated:				
Land improvements	871,324	-	-	871,324
Buildings and improvements	982,386	-	-	982,386
Machinery and equipment	923,379	61,194	-	984,573
Streets	849,425	-	-	849,425
Infrastructure	2,942,300	-	-	2,942,300
Total capital assets, being depreciated	6,568,814	61,194	-	6,630,008
Less accumulated depreciation for:				
Land improvements	351,418	40,816	-	392,234
Buildings and improvements	369,637	21,120	-	390,757
Machinery and equipment	750,443	100,922	-	851,365
Streets	86,629	42,613	-	129,242
Infrastructure	878,050	58,951	-	937,001
Total accumulated depreciation	2,436,177	264,422	-	2,700,599
Net capital assets, being depreciated	4,132,637	203,228	-	3,929,409
Net governmental activities capital assets	\$ 7,293,334	\$ 203,228	\$ -	\$ 7,090,106

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 27,107
Legislative	1,300
Public works	128,023
Recreation and culture	50,897
Internal Service Fund	57,095
Total depreciation expense – governmental activities	<u>\$264,422</u>

CITY OF SAUGATUCK

Notes to Financial Statements

For the Year Ended June 30, 2007

8. LONG-TERM DEBT

The following is a summary of debt transactions of the City for the year ended June 30, 2007:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>	<u>Due Within One Year</u>
<i>Governmental activities</i>					
\$925,000 Allegan County Sanitary Sewer System No. 13 general obligation limited tax bonds; due in annual installments of \$50,000 to \$75,000 through October 2014; interest at 5.1% to 5.6%	\$ 550,000	\$ -	\$ 50,000	\$ 500,000	\$ 50,000
\$180,000 Contract payable--State Infrastructure Bank; due in semi-annual installments of \$19,518, including interest at 3.0% through September 2008	93,347	-	36,505	56,842	37,606
\$400,000 Note payable--bank; due in annual installments of \$39,000 to \$48,000 plus interest at 4.3% through November 2011	260,000	-	39,000	221,000	41,000
\$17,500 Note payable--individual, secured by mortgages; due in annual installments of \$4,935, including interest at 5.0% through August 2007	9,176	-	4,470	4,706	4,706
Subtotal installment debt	912,523	-	129,975	782,548	133,312
Compensated absences	12,525	-	1,065	11,460	-
Total governmental activities	<u>\$ 925,048</u>	<u>\$ -</u>	<u>\$ 131,040</u>	<u>\$ 794,008</u>	<u>\$ 133,312</u>

For the governmental activities, long-term compensated absences are generally liquidated by the general fund.

The annual requirements to amortize all debt outstanding (excluding long-term compensated absences) as of June 30, 2007 are as follows:

<u>Year June 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$133,312	\$ 35,994
2009	111,236	30,240
2010	94,000	25,488
2011	96,000	20,916
2012	123,000	15,545
2013-2015	225,000	18,806
Total	<u>\$782,548</u>	<u>\$146,989</u>

CITY OF SAUGATUCK

Notes to Financial Statements

For the Year Ended June 30, 2007

9. PENSION PLAN

Plan Description

The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multi-employer defined benefit pension plan providing retirement, death and disability benefits covering certain bargaining units. The System is administered by the MERS retirement board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N Canal, Lansing, Michigan 48917 or by calling (800) 767-6377.

The City is required to contribute at an actuarially determined rate, which for the current year was 9.86 percent. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the City depending on the MERS contribution program adoption by the City.

For the year ended June 30, 2007, the City's annual pension cost of \$16,491 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of eight (8.0) percent; and (b) projected salary increases of four and one-half (4.5) percent per year, compounded annually based on inflation, plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2006, the date of the latest actuarial valuation, was 30 years.

Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2005	\$21,980	100%	\$ -
2006	23,534	100%	-
2007	16,491	100%	-

CITY OF SAUGATUCK

Notes to Financial Statements

For the Year Ended June 30, 2007

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio Total	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/04	\$ 914,954	\$1,038,301	\$123,347	88%	\$221,224	56%
12/31/05	981,597	1,062,816	81,219	92%	221,971	37%
12/31/06	1,065,473	1,136,420	70,947	94%	150,494	47%

10. DEFINED CONTRIBUTION PENSION PLAN

The City provides pension benefits for all its full-time employees hired on or after May 1, 2004, through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Employees are eligible to participate at the date of employment. The City contributes an amount equal to 6% of the employee's base salary each month. The City's contributions for each employee and interest allocation to the employee's account are full vested after 7 years of continuous service (50% vested after completion of 5 years of service). The City is not a trustee of the plan, nor is the City responsible for investment management of plan assets. The City made required contributions of \$-0- to the plan for the year ended June 30, 2007, as former employees of the City forfeited their respective balances and no additional contributions were required by the City.

11. INTERFUND TRANSFERS

	Transfers In	Transfers Out
General Fund	\$ 9,350	\$190,000
Major Streets	-	6,000
Local Streets	163,000	42,450
Business Licenses	-	30,000
Parks	7,500	-
Nonmajor governmental funds	88,600	-
Total	\$268,450	\$268,450

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to financial various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF SAUGATUCK

Notes to Financial Statements

For the Year Ended June 30, 2007

12. JOINT VENTURES

a) *Township of Saugatuck Fire District:*

The Township of Saugatuck Fire District (the "District") is a joint venture of the City, the Township of Saugatuck and the City of the Village of Douglas. The administrative Board of the District consists of five members, two at-large members and one member from each of the three participating units. The budget of the District is approved at a joint meeting of the participating units. The participating units levy special millages for fire protection that are used to finance the cost of operations and capital expenditures of the District. During the year ended June 30, 2007, the City contributed \$133,063 to the District. Complete audited financial statements for the Districts can be obtained from the Township of Saugatuck's Clerk.

b) *Interurban Transit Authority:*

The Interurban Transit Authority (the "Authority") is a joint venture of the City, the Township of Saugatuck, and the City of the Village of Douglas. The Authority's Administrative Board consists of six members, two members appointed by each of the three participating units. During the year ended June 30, 2007 the City contributed \$57,300 to the Authority.

c) *Kalamazoo Lake Sewer and Water Authority*

The Kalamazoo Lake Sewer and Water Authority (the "Authority") is a joint venture of the City, the Township of Saugatuck, and the City of the Village of Douglas. The Authority's Administrative Board consists of five members appointed by each of the three participating units. The Authority was formed to operate, maintain, administer and manage the water and sewerage systems located within the constituent units of government. During the year ended June 30, 2007, the City contributed \$10,332 to the Authority. Any infrastructure constructed or paid by the City is recorded as infrastructure on the City's records.

13. PRIOR PERIOD ADJUSTMENTS

In prior years, certain funds were aggregated together for external reporting purposes. Since these funds are accounted for and budgeted separately, they have been segregated in the current year report, and beginning fund balances/net assets have been restated. The net effect on governmental activities was \$-0-.

	<u>As Originally Stated</u>	<u>Restatements</u>	<u>As Restated</u>
Governmental activities			
<i>Governmental funds</i>			
General fund	\$ 857,823	\$(114,198)	\$ 743,625
Major streets	234,503	-	234,503
Local streets	137,936	(1)	137,935
Business license	24,647	-	24,647
Water and sewer improvement	331,321	-	331,321
Sewer debt service	92,205	-	92,205
Parking debt service	-	1,025	1,025
Local streets debt service	-	1	1
Parks	230,484	-	230,484

CITY OF SAUGATUCK

Notes to Financial Statements

For the Year Ended June 30, 2007

	<u>As Originally Stated</u>	<u>Restatements</u>	<u>As Restated</u>
<i>Internal service fund</i>			
Motor pool	<u>\$ -</u>	<u>\$ 227,191</u>	<u>\$ 227,191</u>
Total	1,908,919	(114,018)	2,022,937
Government-wide financial statement adjustments	<u>6,393,412</u>	<u>(114,018)</u>	<u>6,279,394</u>
Total governmental activities	<u>\$8,302,331</u>	<u>\$ -</u>	<u>\$8,302,331</u>

* * * * *

SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

CITY OF SAUGATUCK

Combining Balance Sheet Nonmajor Governmental Funds

June 30, 2007

	<u>Special Revenue</u>	<u>Debt Service</u>			
	<u>Fire Assessments</u>	<u>Parking</u>	<u>Local Streets</u>	<u>Sewer Debt</u>	<u>Total</u>
Assets					
Cash and cash equivalents	\$ 3,545	\$ 1,042	\$ 64	\$ 90,890	\$ 95,541
Accounts receivable	<u>-</u>	<u>-</u>	<u>-</u>	<u>195</u>	<u>195</u>
 Total assets	 <u><u>\$ 3,545</u></u>	 <u><u>\$ 1,042</u></u>	 <u><u>\$ 64</u></u>	 <u><u>\$ 91,085</u></u>	 <u><u>\$ 95,736</u></u>
 Liabilities and fund balances					
 Liabilities					
Accounts payable	\$ 2,887	\$ -	\$ -	\$ -	\$ 2,887
 Fund balances					
Unreserved, undesignated	<u>658</u>	<u>1,042</u>	<u>64</u>	<u>91,085</u>	<u>92,849</u>
 Total liabilities and fund balances	 <u><u>\$ 3,545</u></u>	 <u><u>\$ 1,042</u></u>	 <u><u>\$ 64</u></u>	 <u><u>\$ 91,085</u></u>	 <u><u>\$ 95,736</u></u>

CITY OF SAUGATUCK

Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds

For the Year Ended June 30, 2007

	Special Revenue	Debt Service			
	Fire Assessments	Parking	Local Street	Sewer Debt	Total
Revenues					
Taxes	\$ -	\$ -	\$ -	\$ 72,390	\$ 72,390
Charges for services	-	-	-	319	319
Interest	658	-	-	4,558	5,216
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	658	-	-	77,267	77,925
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Expenditures					
Current:					
Public works	-	-	-	400	400
Debt service:					
Principal	-	39,000	36,505	50,000	125,505
Interest	-	10,483	2,532	27,987	41,002
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	-	49,483	39,037	78,387	166,907
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Revenues over (under) expenditures	658	(49,483)	(39,037)	(1,120)	(88,982)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Other financing sources (uses)					
Transfers in	-	49,500	39,100	-	88,600
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net change in fund balances	658	17	63	(1,120)	(382)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances, beginning of year, as restated	-	1,025	1	92,205	93,231
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances, end of year	<u>\$ 658</u>	<u>\$ 1,042</u>	<u>\$ 64</u>	<u>\$ 91,085</u>	<u>\$ 92,849</u>



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

October 17, 2007

To the City Council of the
City of Saugatuck
Saugatuck, Michigan

We have audited the financial statements of the City of Saugatuck for the year ended June 30, 2007, and have issued our report thereon dated October 17, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated July 31, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the City of Saugatuck. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Saugatuck are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City of Saugatuck during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:



- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of Saugatuck's financial reporting process (that is, cause future financial statements to be materially misstated). As described in the accompanying schedule of comments and recommendations, we proposed certain journal entries, all of which were recorded by management, which in our judgment, had a significant effect on the City's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Saugatuck's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Lehmann Johnson".

City of Saugatuck

Comments and Recommendations

For the Year Ended June 30, 2007

In planning and performing our audit of the financial statements of the City of Saugatuck as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider certain deficiencies, as described below, to be significant deficiencies in internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that certain deficiencies, as described below, constitute material weaknesses.

Material Weaknesses

Finding 2007-1 – Preparation of Financial Statements in Accordance with GAAP

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

City of Saugatuck

Comments and Recommendations

For the Year Ended June 30, 2007

Condition:	As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its <i>external</i> auditors, who cannot by definition be considered a part of the government's <i>internal</i> controls.
Cause:	This condition was caused by the City's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.
Effect:	As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
View of Responsible Officials:	The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Finding 2007-2 – Material Audit Adjustments Made to Capital Assets

Criteria:	The City's management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).
Condition:	The City is required to maintain capital asset schedules and to record the appropriate journal entries to capital assets, accumulated depreciation, and depreciation expense. During our audit, we identified and proposed a material adjustment, which was approved and posted by management, to properly account for capital asset purchases and depreciation expense in the Internal Service Fund.
Cause:	This condition was caused by several factors, including the City's historic reliance on the external auditors for the maintenance of capital asset records, as well staff turnover.
Effect:	As a result of this condition, the City's internal accounting records were initially misstated, and required adjustments in amounts that were material to the financial statements taken as a whole.
View of Responsible Officials:	The City has since hired a full-time Finance Director and will maintain and record all entries applicable to capital assets in the future.

City of Saugatuck
Comments and Recommendations
For the Year Ended June 30, 2007

Other Matters

Internal Controls – Segregation of Duties

Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the City's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the organization's unique circumstances.

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitation on the effectiveness of an organization's internal controls carries with it a greater risk of fraud and abuse.

As stated previously, the establishing and maintaining of internal controls is the responsibility of management. As the City's independent external auditors, we are specifically banned by professional standards from performing any management functions. In other words, the annual audit is not a part of the City's internal control structure, and cannot not be relied upon as part of *management's* systems to deter or detect fraud and abuse.

While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible. However we did note the following specific items, which we would like to highlight:

- **Documentary Support of Journal Entries**

During our audit, we noted several journal entries posted to the general ledger for which there was no documentation to support why the entries were being made. As manual journal entries represent higher risk for circumventing otherwise solid internal controls, we recommend that all such entries require documentary support to explain their purpose before they are approved for entry. Management has indicated that it is currently working to amend the City's policy to implement this recommendation.

- **Cash Receipts Controls**

We noted that management is not currently segregating the activities of entering cash receipts in the books of original entry and the activity of making the daily bank deposit. It was further noted that at various times throughout the year, cash receipts collected late in the day (i.e., after the daily bank deposit was made) were posted to the system as received, but held until the next day's deposit. Accordingly, there were numerous instances in which the daily cash receipts did not agree with the related bank deposit, which represents an increased risk of misstatement due to error or fraud.

City of Saugatuck

Comments and Recommendations

For the Year Ended June 30, 2007

We recommend the City post-date any deposits collected after the daily bank deposit is made so that an audit trail is available to trace revenue collected in any day to that specific day's deposit.

- **Investment Reconciliation Controls**

We noted that management is not currently segregating the activities of reconciling the investments to the general ledger and the managing of investment functions. We recommend that the City assign these incompatible duties to separate individuals.

- **Cash Disbursement Controls**

We noted that the City has a process in place to approve invoices prior to payment. During testing of several disbursements, we noted that this approval process is being documented with a generic "approved" stamp, which could be applied by any individual. We recommend that an appropriate individual sign or initial each invoice approved for payment in order to enhance internal controls. Subsequent to our audit, the City has developed a new process that requires a signature or initial on each invoice by the City Manager and Finance Director.

- **Payroll Controls**

During our testing of the City's payroll system, we identified certain instances in which employee timesheets lacked evidence of supervisory approval. We recommend that the City require all timesheets to be reviewed and approved (i.e., initialed by an appropriate supervisor) prior to payment.

Budget Compliance

State law requires the City to adopt a budget for its General Fund by activity, and for each special revenue fund by function. Such budgets represent a legal appropriation to expend funds, and so expenditures may not exceed the budgeted amounts at the legal level of budgetary control. As discussed in Note 2 of the City's financial statements, the City expended certain amounts in excess of the approved budget. We recommend that the City Council amend the budget throughout the year as the need for additional expenditures becomes evident. In addition, we recommend that the adopted budget formally identify the legal level of budgetary control and specify the dollar amount under which the City Manager may make transfers between budgeted line items, without City Council approval.

Police Contract

During our audit, we noted that the City contracts with the City of the Village of Douglas for police services. We noted a formal contract exists between the two entities, although it is not updated annually. We recommend that the City amend this contract annually and specify the dollar amount for the services to be provided. This should reduce the likelihood of retroactive adjustments as well as provide a more stable amount for budgetary purposes.

City of Saugatuck
Comments and Recommendations
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ACH Policy

Michigan Public Act 738 of 2002 (entitled “Electronic Transactions of Public Funds”) requires the governing body to approve a policy before making any payments using the ACH (Automated Clearing House) system (wire transfers). We noted during our audit that the City had not adopted an ACH policy prior to June 30, 2007, but has subsequently done so.

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